

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
ELLIOTT COUNTY CLERK

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Elliott County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$108,562 from the prior year, resulting in excess fees of \$173,277 as of December 31, 2014. Receipts increased by \$68,210 from the prior year and disbursements decreased by \$40,352.

Report Comments:

- 2014-001 The County Clerk Lacks Oversight Over Internal Control Procedures
- 2014-002 The County Clerk's 2014 Fee Account Had Four Missing Daily Deposits Totaling \$15,680
- 2014-003 The County Clerk Has A Known Deficit Of \$8,990 In Her 2014 Fee Account
- 2014-004 The County Clerk Did Not Deposit Receipts Intact On A Daily Basis
- 2014-005 The County Clerk Commingled Personal Funds With The Fee Account
- 2014-006 The County Clerk Has Disallowed Disbursements Of \$84 In Her 2014 Fee Account
- 2014-007 The County Clerk Overspent The Deputies' Maximum Salary Limitation Fixed By The Fiscal Court
- 2014-008 The County Clerk Did Not Present A Financial Statement And Remit Excess Fees To The Fiscal Court By March 15, 2015
- 2014-009 The County Clerk Did Not Prepare Form 1099's For All Applicable Contract Labor
- 2014-010 The County Clerk Did Not Reconcile The Usage Tax Account Monthly
- 2014-011 The County Clerk Did Not Ensure That Non-Sufficient Funds (NSF) Checks Were Accounted For Properly
- 2014-012 Affordable Housing Trust Payments Were Not Paid For The 3rd Quarter Timely
- 2014-013 The Receipts And Disbursements Ledgers Are Not Accurate
- 2014-014 The County Clerk's Receipts And Disbursements Ledger Amounts Did Not Agree To The Clerk's 4th Quarter Financial Report
- 2014-015 The County Clerk's Quarterly Financial Reports Were Not Submitted Timely To The Department For Local Government

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	10
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
COMMENTS AND RECOMMENDATIONS.....	17



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Elliott County Clerk
Members of the Elliott County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Elliott County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Elliott County Clerk
Members of the Elliott County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Clerk, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015 on our consideration of the Elliott County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Elliott County Clerk's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Elliott County Clerk
Members of the Elliott County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2014-001 The County Clerk Lacks Oversight Over Internal Control Procedures
- 2014-002 The County Clerk's 2014 Fee Account Had Four Missing Daily Deposits Totaling \$15,680
- 2014-003 The County Clerk Has A Known Deficit Of \$8,990 In Her 2014 Fee Account
- 2014-004 The County Clerk Did Not Deposit Receipts Intact On A Daily Basis
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- 2014-015 The County Clerk's Quarterly Financial Reports Were Not Submitted Timely To The Department For Local Government

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

December 10, 2015

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

HB 537 Revenue Supplement		\$ 64,618
State Fees For Services		2,073
Fiscal Court		84,004
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 156,110	
Usage Tax	170,446	
Tangible Personal Property Tax	392,316	
Other-		
Marriage Licenses	2,025	
Deed Transfer Tax	3,865	
Delinquent Tax	70,254	795,016
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	5,201	
Real Estate Mortgages	5,990	
Chattel Mortgages and Financing Statements	17,379	
Powers of Attorney	450	
Affordable Housing Trust	5,316	
All Other Recordings	2,716	
Charges for Other Services-		
Candidate Filing Fees	240	
Copywork	3,727	
Postage	6	
Lien Fees	4,138	45,163
Other:		
Refunds	22	
Miscellaneous	1,146	1,168
Interest Earned		33
Total Receipts		992,075

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 SHELIA BLEVINS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 106,851

Usage Tax 165,681

Tangible Personal Property Tax 142,653

Licenses, Taxes, and Fees-

Delinquent Tax 6,806

Legal Process Tax 5,707

Affordable Housing Trust 5,316 \$ 433,014

Payments to Fiscal Court:

Tangible Personal Property Tax 49,440

Delinquent Tax 7,244

Deed Transfer Tax 3,671 60,355

Payments to Other Districts:

Tangible Personal Property Tax 187,716

Delinquent Tax 35,624 223,340

Payments to Sheriff

5,632

Payments to County Attorney

8,849

Operating Disbursements:

Materials and Supplies-

Office Supplies 370

Other Charges-

Conventions and Travel 763

Refunds 2,297

Miscellaneous 488 3,918

Total Disbursements

735,108

Less: Disallowed Disbursements

84

Total Allowable Disbursements

\$ 735,024

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Net Receipts		\$ 257,051
Less: Statutory Maximum		<u>76,264</u>
Excess Fees		180,787
Less: Expense Allowance	\$ 3,600	
Training Incentive Benefit	<u>3,910</u>	<u>7,510</u>
Excess Fees Due County for 2014		173,277
Payments to Fiscal Court - Monthly		<u>156,093</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 17,184</u>

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the Fiscal Court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the Fiscal Court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Elliott County Clerk's Office is required by Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating accounts. The funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The county treasurer pays all operating expenses for the fee officials.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent for the first six months and 18.89 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Elliott County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Elliott County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

- A. The County Clerk's Office is committed to a lease agreement with Software Management, Inc. for computer equipment maintenance. The lease requires 4 annual payments of \$2,209 to be completed on August 26, 2015. The agreement will renew automatically for additional one year terms thereafter, unless prior written notice is received. Fiscal Court made the 4th annual payment on September 20, 2014. Since this lease automatically renews each year thereon the balance of the lease agreement was \$2,209 as of December 31, 2014.
- B. The County Clerk's Office is committed to a lease agreement with Software Management, Inc. for computer software license and service. The lease requires a monthly payment of \$750 to be completed on August 26, 2015. The agreement will renew automatically for additional one year terms thereafter, unless prior written notice is received. The Fiscal Court makes the lease payments. The balance of the lease agreement was \$6,000 as of December 31, 2014.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2014

Assets

Cash in Bank		\$	39,017
Deposits in Transit			19,635
Paid Receivables:			
Interest Earned	\$	7	
Unpaid Receivables:			
County Clerk's Disallowed Disbursements		84	91
Total Assets			58,743

Liabilities

Paid Liabilities:			
Outstanding Checks	\$	2,145	
Liabilities-			
Motor Vehicle Licenses	\$	2,146	
Usage Tax		288	
Tangible Personal Property Tax		28,225	
Affordable Housing Trust		2,856	
Deed Transfer Tax		350	
Legal Process Tax		492	
Delinquent Tax		5,009	
NSF Charge		32	39,398
Total Paid Obligations			41,543
Unpaid Obligations:			
Outstanding Checks-			
Refund		16	
Liability-			
Due to 2015 account		8,990	
Excess Fees		17,184	
Total Unpaid Obligations			26,190
Total Liabilities			67,733
Total Fund Deficit as of December 31, 2014			\$ (8,990)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Elliott County Clerk
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Elliott County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated December 10, 2015. The County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Elliott County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003 and 2014-010 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-011, 2014-012, 2014-013, 2014-014, and 2014-015.

County Clerk's Responses to Findings

The Elliott County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 10, 2015

COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The County Clerk Lacks Oversight Over Internal Control Procedures

The County Clerk's internal control procedures have deficiencies in cash receipts, disbursements, bank reconciliations, and financial reporting. A lack of oversight increases the risk that errors could occur and not be detected. The deficiency in internal controls over cash receipts occurs because the County Clerk collects cash receipts, prepares daily deposits, and prepares daily checkout sheets and posts to the receipts ledger. A deficiency in the internal controls over disbursements occurs because the County Clerk prepares checks and posts to the disbursements ledger. A deficiency in bank reconciliations occurs because the County Clerk has access to cash receipts and disbursements and also prepares the bank reconciliation. The deficiency in internal controls over financial reporting occurs because the County Clerk prepares all quarterly and annual reports while having access to the receipts and disbursements ledgers and bank reconciliations. No one reviews the work of the County Clerk, and there are no other compensating controls in place. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies.

Compensating controls are documented measures the County Clerk could take that do not eliminate the deficiencies but do lessen their severity. Compensating controls would include other office employees preparing daily deposits and posting to ledgers, with the County Clerk reviewing the work and preparing reports and reconciliations based upon the work of the other employees. Another employee could prepare checks to be posted to the ledger by the County Clerk, along with requiring two signatures on checks, one belonging to the check preparer and one to the County Clerk. The County Clerk could have another employee review the bank reconciliations and financial reports that she prepares. Any reviews performed should be documented by employee initials.

We recommend the County Clerk segregate duties involving cash receipts, disbursements, bank reconciliations, and financial reporting. If this is not feasible due to a limited budget, compensating controls should be implemented and documented by the individual performing the procedure.

County Clerk's Response: I continue to work on internal control procedures. I am implementing compensating controls to help correct this situations.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The County Clerk's 2014 Fee Account Had Four Missing Daily Deposits Totaling \$15,680

Daily receipts for May 21, May 22, May 23, and August 11, 2014 were not deposited to the County Clerk's 2014 fee account. The 2014 fee account is missing funds totaling \$15,680. The County Clerk stated there was a misplaced deposit bag containing these missing deposits and that she deposited the missing deposits on February 5, 2015. Because this large amount of deposit activity after year-end was so unusual, we requested the bank provide the detailed composition for these late deposits. From this bank deposit detail, we identified that \$8,990 of the deposit was in the form of checks, and \$6,690 was in the form of cash. All the \$8,990 of checks could be traced to 2015 fee account daily work; therefore, it was not due to a misplaced deposit bag for the 2014 fee account. Because cash loses its identity if proper accounting records are not kept in place, it was not possible to determine if the \$6,690 of cash from those deposits were for 2015 activity. Thus, these cash deposits are considered unidentified receipts. Had the Clerk been preparing proper, accurate, and timely accounting records, these cash funds could have been identified. In addition, if the cash deposits were from a misplaced deposit bag, and the Clerk had a proper accounting and monthly reconciliation process in place, those missing deposits would have been discovered in the timeframes of May and August 2014, which they were not. Each day the County Clerk's office collects payments from customers, those collections must be receipted in and deposited to the County Clerk's fee account. Missing daily deposits indicate a cash deficit in the County Clerk's 2014 fee account. See comment 2014-003. We recommend the County Clerk deposit each day's receipts to the correct fee account and also properly prepare deposits tickets that agree to daily check out sheets that also agree to the accounting ledgers. This matter will be referred to the Attorney General's Office.

County Clerk's Response: All deposits are NOW made on a daily basis. Cash deposits and check deposits are identified separately.

2014-003 The County Clerk Has A Known Deficit Of \$8,990 In Her 2014 Fee Account

The County Clerk has a deficit in her 2014 fee account in the amount of \$8,990. As stated in comment 2014-002, the County Clerk deposited 2015 funds in the 2014 fee account, resulting in \$8,990 due back to the 2015 fee account. The Fiscal Court has not received the proper amount of excess fees timely. The County Clerk should ensure deposits are made to the proper fee account timely and not diverted for other purposes. In the event there is a shortage in an official's fee account, the official is personally liable to replenish the funds. We recommend the County Clerk deposit \$8,990 of personal funds to cover the deficit in her 2014 fee account, and then pay remaining excess fees to the Fiscal Court.

County Clerk's Response: A deposit in the amount of \$8,990 will be made to the 2015 fee account by December 31, 2015.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The County Clerk Did Not Deposit Receipts Intact On a Daily Basis

The County Clerk made 267 deposits during the year, of which 147 deposits did not clear the bank within three business days. Further, 11 deposits did not clear the bank in over a month, and four deposits cleared the bank on February 5, 2015, which made them over six months late. Receipts not deposited on a daily basis can result in the County Clerk's office not being able to distribute funds timely to other agencies and increases the risk that funds could be misplaced or stolen. The County Clerk did not ensure that deposits were made intact and on a daily basis. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Requirements for handling public funds as stated in the State Local Finance Policy Manuals are that deposits be made intact daily. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the County Clerk deposit receipts intact on a daily basis.

County Clerk's Response: All deposits are now being made daily.

2014-005 The County Clerk Commingled Personal Funds With The Fee Account

The County Clerk cashed a \$100 check written on her personal account and the County Clerk's son also cashed a \$100 check written on his personal account from the 2014 fee account on February 3, 2015. The personal checks do not trace to a daily checkout sheet or any of the motor vehicle transactions. Funds received were not deposited properly and were used for other purposes at the County Clerk's discretion. It cannot be determined if these deposits were either written to the County Clerk's account in exchange for cash or made to replenish the 2014 fee account for a cash shortage. KRS 64.850 states that "It shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited." Further, checks should not be written to cash, and each check/cash transaction should trace to an item of business on that specific date. We recommend that all monies deposited into the County Clerk's account on a specific day tie to that day's business. Otherwise, there is an assumption the check was either exchanged for cash or used to replenish a cash shortage in the County Clerk's fee account.

County Clerk's Response: No personal checks are now cashed in the Clerk's office.

2014-006 The County Clerk Has Disallowed Disbursements Of \$84 In Her 2014 Fee Account

The County Clerk has \$84 of disallowed disbursements in her 2014 fee account. When fee account monies are spent on disallowed disbursements, the Fiscal Court is deprived of excess fees that can be used for other county services. The County Clerk used valet parking services at a hotel while in attendance at a County Clerk's meeting and was charged \$28 each day for three days totaling \$84. The Auditor of Public Accounts (APA) follows the ruling of Funk v. Milliken, in which criteria for allowable expenditures were established. These criteria state the expenditure should be necessary for the office use; beneficial to the public; not personal in nature; and reasonable in amount and content. We recommend the County Clerk deposit personal funds of \$84 in the 2014 fee account for disallowed expenditures.

County Clerk's Response: \$84 will be deposited into the 2014 Fee Account to cover this expenditure.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-007 The County Clerk Overspent The Deputies' Maximum Salary Limitation Fixed By The Fiscal Court

The County Clerk overspent the deputies' maximum salary limitation as fixed by the Fiscal Court by \$3,176. The Fiscal Court approved the deputies' salary limit at \$47,720; however, the Clerk expended \$50,896. Disbursements for deputies' salaries were not monitored by the County Clerk. The County Clerk is not in compliance with KRS 64.530(3). Overspending the amount approved for County Clerk's deputies' salaries reduces the funds available to the Fiscal Court to be used to pay for other expenses of county government. KRS 64.530(3) states, in part, "the fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the County Clerk monitor payroll disbursements during the year and not exceed the deputies' maximum salary limitation without Fiscal Court approval.

County Clerk's Response: I did not realize that I was close to the salary cap. Steps are in place to monitor this situation before an expenditure can happen.

2014-008 The County Clerk Did Not Present A Financial Statement And Remit Excess Fees To The Fiscal Court By March 15, 2015

The County Clerk did not submit a financial statement and pay excess fees to the Fiscal Court by March 15, 2015. There is no record of the County Clerk presenting her financial statement to the Fiscal Court in the minutes. As of our audit date, excess fees of \$17,184 remain unpaid. Not paying excess fees to the Fiscal Court in a timely manner disrupts the financial reporting process for the Fiscal Court. KRS 64.152(2) requires a financial statement to be presented and excess fees to be paid to Fiscal Court by March 15 of each year. We recommend the County Clerk comply with KRS 64.152(2) by presenting a financial statement and paying excess fees by March 15 of each year and pay the remaining 2014 excess fees of \$17,184 as soon as possible.

County Clerk's Response: The excess fees will be remitted by December 31, 2015.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-009 The County Clerk Did Not Prepare Form 1099's For All Applicable Contract Labor

The County Clerk did not prepare and distribute a Form 1099 to her daughter for scanning and indexing work performed during calendar years 2012 and 2013. The County Clerk's daughter was paid \$3,552 in calendar year 2012 and \$5,380 in calendar year 2013 as part of a Libraries and Archives grant. The County Clerk's daughter's wages were not properly reported to appropriate agencies. The County Clerk neglected to fulfill this obligation. Libraries and Archives scanning and indexing grants are required to be spent as contract labor. The County Clerk agrees to this when the grant agreement is signed. The County Clerk is responsible for reporting contract labor payments to the appropriate agencies in a timely manner. The Internal Revenue Service requires the Form 1099 be issued to individual contractors for services resulting in income of \$600 or more. We recommend the County Clerk prepare a Form 1099 for the contract labor employee for calendar years 2012 and 2013 and submit corrected Form 1096 to the IRS for calendar years 2012 and 2013.

County Clerk's Response: Form 1099 will be issued by December 31, 2015.

2014-010 The County Clerk Did Not Reconcile The Usage Tax Account Monthly

The County Clerk did not reconcile her usage tax bank account. Auditors spent additional time reconciling the usage account to an account balance of \$947 as of December 31, 2014. This balance indicates overpayments from the County Clerk's fee account or underpayments of usage tax to the Department of Revenue which affects excess fees paid to the county. The County Clerk neglected to perform this duty. Usage tax payments are made daily from the fee account to the usage account. The amount paid is called in to the Department of Revenue, who then debits the usage tax account. Since there are numerous transactions, the usage tax account should be reconciled monthly to maintain accuracy and ensure that errors are corrected in a timely manner. We recommend the County Clerk reconcile the usage tax account on a monthly basis and that any variances found be resolved at that time. The reconciliation should be reviewed for accuracy by someone other than the preparer.

County Clerk's Response: No response.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-011 The County Clerk Did Not Ensure That Non-Sufficient Funds (NSF) Checks Were Accounted For Properly

The County Clerk does not account for NSF checks properly. Nine of twelve NSF checks were still in the County Clerk's possession when we were doing the audit and had not been turned over to the county attorney's office. Customers are potentially getting away with not paying for their transaction. The County Clerk should be following up on the returned checks, and if they are not paid, the transaction should be reversed in the County Clerk's computer system and turned over to county attorney's office. Uncollected NSF checks should be turned over the County Attorney's office within a reasonable amount of time if the County Clerk cannot collect on the check. Also, per KRS 500.050, the County Attorney's office may have only one year to seek collection on an NSF check. If the County Clerk cannot collect an NSF check, then the check should be promptly turned over to the County Attorney's office.

County Clerk's Response: NSF checks are now immediately turned over for collection by the county attorney.

2014-012 Affordable Housing Trust Payments Were Not Paid For The 3rd Quarter Timely

The County Clerk did not submit her 3rd quarter 2014 Affordable Housing Trust payment until August 2015. The Department of Revenue was not paid timely for the 3rd quarter Affordable Housing distribution. The County Clerk neglected to reconcile her checkbook properly. If she had, she would have realized the check was in the checkbook and not yet mailed. Affordable Housing Trust monies received are to be paid to the Department of Revenue on or before the 10th day of the month following the quarter covered by the report. We recommend the County Clerk ensure that the Affordable Housing Trust payments are all made timely.

County Clerk's Response: This was an oversight and has been corrected.

2014-013 The Receipts And Disbursements Ledgers Are Not Accurate

The receipts and disbursements ledgers are not accurate. The Uniform System of Accounts, adopted under KRS 68.210, requires the Clerk to maintain accurate receipts and disbursements ledgers. The Clerk neglected to reconcile her bank statement to her ledgers. This caused errors in the County Clerk's ledgers and the amounts posted were not the same amounts that cleared the bank. We had to make numerous adjustments to correct these posting errors. We recommend the County Clerk reconcile the bank statement to the ledgers to ensure that amounts are posted properly.

County Clerk's Response: No response.

ELLIOTT COUNTY
SHELIA BLEVINS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-014 The County Clerk's Receipts and Disbursements Ledger Amounts Did Not Agree To
The Clerk's 4th Quarter Financial Report

The County Clerk's ledgers do not agree to the County Clerk's 4th quarter financial report. The County Clerk's quarterly report did not include all receipts collected in her office for calendar year 2014. The County Clerk has consistently had numerous posting errors on her ledgers. These errors could cause the County Clerk to pay the incorrect amount of excess fees to the county. Further, the ledgers are used to prepare the 4th quarter financial report, and if the ledgers are incorrect, then the 4th quarter report is incorrect and cannot be relied upon by external agencies. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, requires the County Clerk to prepare a quarterly report which includes all receipts and disbursements the County Clerk collected and paid during the calendar year. We recommend the County Clerk comply with KRS 68.210 by preparing a complete and accurate quarterly report.

County Clerk's Response: No response.

2014-015 The County Clerk's Quarterly Financial Reports Were Not Submitted Timely To The
Department for Local Government

The County Clerk did not submit quarterly financial reports timely to the Department for Local Government (DLG). The County Clerk did submit the 4th quarter report to DLG, but it was submitted late on February 25, 2015. The County Clerk is consistently late on submitting her quarterly reports to DLG. These reports are due by the 30th day of the month following the end of each quarter. By not timely submitting these reports, financial statement users may not be aware of the financial position of the County Clerk's office. We recommend the County Clerk's office ensure that the quarterly reports are submitted timely in the future.

County Clerk's Response: All reports will be submitted on time in the future.

